



The Updated California Jobs Budget

August 3, 2010

Summary of the Updated Jobs Budget:

The Updated Jobs Budget includes approximately \$18.5 billion in General Fund solutions, which closes the \$17.9 billion shortfall identified in the May Revision, and provides a final reserve of about \$535 million.

The General Fund solutions are allocated as follows:

Starting Problem (per May Revision):	-\$17.9 billion
Expenditure Reductions:	\$8.3 billion
Federal Funds:	\$4.1 billion
Additional Revenues:	\$2.7 billion
♦ <i>LAO Revenue Forecast</i>	<i>(\$1.4 billion)</i>
♦ <i>Oil Severance, Corp Delays, & Reform</i>	<i>(\$4.4 billion)</i>
♦ <i>Tax Enforcement</i>	<i>(\$0.2 billion)</i>
♦ <i>Tax Amnesty (tied to private jobs set-aside)</i>	<i>(\$0.3 billion)</i>
♦ <i>Prop 98 Adjustment</i>	<i>(-\$3.2 billion)</i>
♦ <i>Rev's Allocated to local Public Safety</i>	<i>(-0.4 billion)</i>
Alt. Funding, fund shifts, other revenues:	\$3.7 billion
Private Sector Jobs Set-Aside	-\$0.3 billion
Total Solutions:	\$18.5 billion
Reserve:	\$0.5 billion

The key elements of the Updated Jobs Budget are as follows:

- ♦ **Protects against the Governor's proposals to kill 430,000 jobs.** Rejects the Governor's call to eliminate local government, school, and private sector jobs.
- ♦ **Protects Critical Education Dollars.** Rejects Governor's devastating cuts to education and instead funds schools at nearly \$54 billion through Proposition 98 funding and accelerating \$1.6 billion, or more, in funds owed to local School and Community College Districts.
- ♦ **Rejects Phony Cuts to Safety Net.** Rejects the Governor's slashing of safety net programs, which would actually cost the state more, and instead maintains welfare to work, childcare, and cost effective alternatives to expensive nursing homes.

- ◆ **Protects Californians from Higher Taxes.** Makes no broad based tax increases, and instead delays new corporate tax breaks, closes the California Oil Severance Tax loophole, and reforms the tax structure to lower total taxes at all income levels while generating revenues for the state and reducing federal tax bills.
- ◆ **Out Year Problem.** According to preliminary estimates, the remaining problem for 2011-12 of approximately \$10 to \$12 billion.

Snapshot Reminder of Governor's May Revision:

- ◆ **More Job Loss:** In total, the Governor's budget eliminates over 430,000 private sector, school, and local government jobs.
- ◆ **Devastates Education:** The Governor cuts \$4.3 billion in Prop 98 spending to schools and childcare. The LAO reports that the Governor's level of funding does not meet Proposition 98 required minimums.
- ◆ **Punishes the Working Poor.** The Governor wipes out critical childcare and employment services that enable the working poor to stay in the workforce, and instead forces tens of thousands out of work.
- ◆ **Billions in Hidden Borrowing.** The Governor hides \$5 billion in borrowing in his budget (in addition to \$2 billion in acknowledged borrowing). The Governor's attempts to violate Proposition 98, wipe out safety net programs and underfund IHSS will only lead to cost shifts to other parts of the budget and to courts overturning the cuts. These cuts are unachievable and the state will ultimately pay for the costs.
- ◆ **Protects Big Oil and Corporate Tax Breaks.** Keeps California as the only oil producing state that lets Big Oil companies take oil out of our ground and not pay a fee; also protects billion dollar corporate loopholes.

Key Highlights of the Updated Jobs Budget

Highlights For Education:

- ◆ **Rejects Governor's Devastating School Cuts.** The Updated Jobs Budget rejects \$3.4 billion in education cuts, and instead provides full funding of these key elements:
 - Restores \$1.5 billion for Revenue Limits;
 - Restores \$1.4 billion for child care (including \$286 million from one-time funds);
 - Restores \$250 million for Class Size Reduction reflecting updated program cost estimates; and
 - Restores \$230 million to eliminate the Governor's "negative COLA".
- ◆ **Accelerates an Additional \$1.3 billion, or more, for K-12 Schools.** The Updated Jobs Budget establishes a statewide local school district Joint Powers Authority to enable school districts to accelerate \$1.3 billion in mandate funds owed to school districts (will also accelerate over approximately \$300 million for community colleges as well). This would be based on the successful JPA used by local governments last year to accelerate the \$2 billion in Prop 1A suspension repayments.
- ◆ **Suspends, but Maintains the Integrity of Proposition 98.** The Updated Jobs Budget recognizes that as a last resort, a suspension of the Prop 98 minimum necessary. But the suspension is done in a way that maintains the integrity of Proposition 98 by meeting the following key objectives:
 - Locks in the Maintenance Factor agreement that was critical to the Budget Act of 2009 and what the Governor's May Revision would break;
 - Includes total Prop 98 funding of around \$52 billion, which enables the restoration of the Governor \$3.4 billion in Proposition 98 cuts; and
 - Ensures that Proposition 98 funding level above the May Revision is at least half of the additional revenues that are above the May Revision.

Highlights for Higher Education:

- ◆ **Restores Funding for UC and CSU.** The Updated Jobs Budget restores \$610 million in funding for UC and CSU in last year's budget.

- ◆ **Provides Increase for Community College Job Training.** The Updated Jobs Budget provides \$25 million to double funding for the Economic Development Program, which successfully gets unemployed Californians back to work.
- ◆ **Accelerates an Additional \$300 million for Community Colleges.** The Updated Jobs Budget establishes a statewide Joint Powers Authority to enable Community Colleges to accelerate \$300 million in mandate funds owed to school districts (will also accelerate over approximately \$1.3 billion for local school districts). This would be based on the successful JPA used by local governments last year to accelerate the \$2 billion in Prop 1A suspension repayments.

Highlights For Local Government:

- ◆ **Provides \$931 million to Cities, Counties, and Special Districts.** The Updated Jobs Budget accelerates the receipt of \$931 million owed to local governments for past mandates. Based on the same process as the successful Joint Powers Authority used to accelerate the repayment of the \$2 billion Prop 1A suspension funds, local governments will be able to accelerate \$931 million in discretionary funds to assist their budget challenges and avoid layoffs to critical public service jobs.

Highlights for Health:

- ◆ **Fully Funds Healthy Families.** The Updated Jobs Budget fully funds the Healthy Families program to enable children of working families to have access to health care.
- ◆ **Rejects Governor's Elimination of Adult Day Healthcare.** The Updated Jobs Budget rejects the Governor's call to eliminate Adult Day Healthcare. Not only would eliminating these services be devastating to individuals dependent upon the program, but it would be fiscally irresponsible with more individuals needing to rely on more costly institutional care.
- ◆ **Rejects Governor's Medi-Cal Cuts.** The Updated Jobs Budget rejects the Governor's Medi-Cal cuts, including cuts to legal immigrant programs for immigrants who have played by the rules, and funding for critical family planning funds which receive a 9-to-1 federal match. The Jobs Budget also rejects numerous cuts to Medi-Cal that would have violated federal laws and greatly reduced access to health services for the state's lowest-income families.

- ◆ **Protects Community Mental Health.** The Updated Jobs Budget rejects several proposals that collectively would decimate community mental health services, increase crime, increase costs through state mental hospitals, emergency rooms, and jails, and return the state to conditions in the 1960s, before the deinstitutionalization of mental health care (including for children).
- ◆ **Rebuilds the State's Public Health Infrastructure.** The Updated Jobs Budget recognizes that protecting the public health is a core function of state government, and therefore rejects cuts to key public health programs such as cancer screening and treatment programs, and restores programs single-handedly eliminated by the Governor last year, namely HIV/AIDS and maternal, child, and adolescent health programs.

Highlights For Transportation:

- ◆ **Reflects Prop 58 Session Actions:** The Updated Jobs Budget accepts the Governor's General Fund savings proposals consistent with the Proposition 58 Session actions.

Highlights for Human Services:

- ◆ **Fully Funds Childcare Programs.** The Updated Jobs Budget fully funds childcare programs, including through Proposition 98, to ensure working poor parents can remain in the workforce and thousands of small business child care providers are not put out of business.
- ◆ **Maintains CalWORKS Program.** The Updated Jobs Budget maintains the CalWORKS program to provide a basic safety net plus provide valuable and successful employment training and job skills to unemployed and underemployed parents so that they can adequately care for their children. CalWORKS is primarily federally funded and brings over \$5 billion in federal funds that are recycled in local California Communities.
- ◆ **Protects IHSS for Aged, Disabled Consumers.** The Updated Jobs Budget restores funding for IHSS to ensure that aged and disabled needy Californians can continue receiving the services they need to stay out of costly institutions and to hold onto their quality of life. In addition, the Jobs Budget establishes a provider fee mechanism which will generate approximately \$190 million in General Fund savings and achieves additional savings that can be achieved through agreements with stakeholders.

- ◆ **Rejects Harmful Cuts and Their Dramatic, Negative Cost Shifts.** The Updated Jobs Budget rejects cuts to SSI/SSP recipients, including programs for vulnerable, needy legal immigrants who have played by the rules, and Medi-Cal Drug services.

Highlights for Resources and Environmental Protection:

- ◆ **Provides Funding for State Parks.** The Updated Jobs Budget provides \$133 million for the state parks system, this includes a budget reduction of \$7 million.

Highlights for Public Safety:

- ◆ **Reduces Prison Health Costs.** The Updated Jobs Budget achieves \$820 million in savings by accepting the Governor's proposal to reduce support for the Prison Receiver's Medical Services Program to a per-inmate medical cost level that is comparable to other states' correctional health care programs.
- ◆ **Establishes the Emergency Response Initiative.** The Updated Jobs Budget enacts the Emergency Response Initiative, which assesses a 4.6% surcharge on all statewide property insurance policies to generate over \$400 million per year to fund emergency response activities at the Department of Forestry and Fire Protection, Cal EMA and at the local level.
- ◆ **Shifts Certain Offenders to Local Jails.** The Updated Jobs Budget provides counties with resources, \$375 million in 2010-11, associated with the state's cost to incarcerate offenders convicted and sent to prison for "wobbler" crimes (crimes that can be charged as either a misdemeanor or felony). To the extent that those resources are used to manage the offender locally, the county would retain the revenue. If an offender is sent to state prison, the revenue would be transferred to the state.
- ◆ **Keeps Courts Open.** The Updated Jobs Budget ends the one-day per month closing of trial courts and additional layoffs of court employees by providing funding to keep California's courts operating full-time. This funding is a result of various fee increases and the redirection of court construction funds and does not negatively impact the General Fund.

Highlights For Revenue:

- ◆ **Delays New Tax Business Tax Breaks.** The Updated Jobs Budget delays the start of new business tax breaks scheduled to take effect in 2010-11. Delaying these new tax breaks avoids over \$2 billion in cuts to education and other critical services.
- ◆ **Closes Oil Severance Loophole.** The Updated Jobs Budget closes the Oil Severance loophole that will generate \$600 million in the budget year, and \$1.2 billion ongoing. It is estimated the severance fee will be about 7.75 percent per barrel, based on the current price of oil.
- ◆ **Tax Swap.** The Updated Jobs Budget would reduce the state sales tax, which is not deductible on federal individual returns, and substitute personal income taxes and vehicle license fees, which are deductible. This would result in a combined federal-state tax reduction for personal income taxpayers across all income groups, while still raising \$1.8 billion.

Tracking: How the Gap is Closed (dollars in millions)

Starting Problem:.....-\$17,937

Expenditure Solutions:

- ◆ Health and Human Services
 - DHCS County Admin Estimate \$22
 - DHCS Hospital Rate Freeze..... \$85
 - DHCS Managed Care Enrollment \$182
 - DHCS Medi-Cal Anti-Fraud \$28
 - DHCS Radiology Rate Reduction..... \$14
 - DDS Regional Center Reduction \$13
 - DMH Caseload update \$21
 - DSS Eliminate IHSS Client Fingerprint..... \$7
 - DSS IHSS Provider Fee and other savings \$250
 - DSS Eliminate Local DA Increase \$10
 - Restoration of Vetoed Programs -\$170

- ◆ K-12 and Higher Education
 - Child care savings \$286
 - 2009-10 Prop 98 savings (no program impacts)..... \$1,064
 - Suspension (fund Prop 98 \$3.4 above Governor) \$3,225

- ◆ Corrections and Public Safety
 - Inmate Medical Care Costs \$820
 - Shift Public Safety to Locals, with funding source \$467
 - Population Adjustments..... \$76
 - Judicial Branch Savings \$42
 - Restored veto of Domestic Violence Shelter Funds -\$19

- ◆ Resources and Environmental Protection
 - State Parks Funding \$7
 - Fish and Game \$7

- ◆ Employee Compensation
 - 5% Cap on Payroll Costs..... \$450
 - OE&E savings with 5% Payroll Cap \$130
 - OPEB Prepayment Delay \$98
 - Six Collective Bargaining Agreements..... \$75
 - Savings contingent on remaining Agreements \$822

- ◆ General Government and All Other..... \$271

Sub-Total, Expenditure Reductions..... **\$8,284**

Federal Funds:\$4,079

Additional Revenues Solutions:

♦ LAO updated forecast	\$1,360
♦ Oil Severance Tax.....	\$600
♦ Suspend Single Sales	\$270
♦ Suspend Credit Sharing	\$315
♦ Suspend Net Operating Loss	\$1,500
♦ Tax Reform	\$1,765
♦ Tax Enforcement.....	\$166
♦ Tax Amnesty (tied to private jobs set-aside)	\$300
♦ Prop 98 Adjustment.....	-\$3,225
♦ Revenues dedicated to local public safety	-\$375

Sub-Total, Additional Revenue Solutions\$2,677

Alternative Funding, Fund Shifts and Other Revenues:

♦ Updated Miscellaneous Revenues.....	\$400
♦ Updated Scoring from existing asset sales	\$585
♦ Updated Funding Source for Trail Courts.....	\$350
♦ Emergency Response Initiative for Fire Costs	\$76
♦ Hospital Fee Extension	\$160
♦ Hospital Fees for Children Health Costs	\$240
♦ Prop 99 Funds for Medi-Cal	\$36
♦ Shift Corrections Capital Outlay costs to AB 900	\$24
♦ Shift Cal Grant Costs to Excess Student Loan Funds.....	\$100
♦ State Highway Account Loan	\$650
♦ Motor Vehicle Account Loan	\$250
♦ Various Special Fund Loans / Transfers	\$782
♦ All other Alt. Funding, Fund Shifts, and Other Revs.....	\$37

Sub-Total, Alt Funding, Fund Shifts, and Other Revenues.....\$3,690

Private Sector Jobs Set-Aside.....- \$300

Grand Total, Solutions\$18,472

Final Reserve.....\$535

Side-by-Side Comparison:

Governor's May Revision & The Conference Committee's Updated Jobs Budget

<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Jobs</u></p> <ul style="list-style-type: none"> ✓ Kills over 430,000 private sector, local government, and school jobs. ✓ Undermines economic recovery and increasing unemployment will add billions to the state's budget problem. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Jobs</u></p> <ul style="list-style-type: none"> ✓ Protects the 430,000 private sector, local government, and school jobs the Governor eliminates. ✓ Generates thousands of new jobs with a \$300 million private sector jobs fund.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Education</u></p> <ul style="list-style-type: none"> ✓ Violates Prop 98 and funds schools at \$48.5 billion, which is billions below the Constitutional Minimum Guarantee. ✓ Weakens education in California and puts thousands of teachers out of work. ✓ Governor's education proposal is really a "hidden borrowing" proposal, since the courts will force the state to meet the constitutional minimum – only the repayment will come to late to protect our schools and teachers from devastating immediate cuts. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Education</u></p> <ul style="list-style-type: none"> ✓ Funds schools at around \$54 billion to protect key education funding levels. This includes approximately \$52 billion through Proposition 98, and a range of between \$1.6 and \$4 billion through the acceleration of mandate funds owed to schools. ✓ Saves over 35,000 teacher and other school employee jobs. ✓ Restores key program funding levels the Governor wants to cut, including: revenue limits, child care, and class size reduction.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Revenues</u></p> <ul style="list-style-type: none"> ✓ Establishes Speed Cameras to generate \$200 million. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Revenues</u></p> <ul style="list-style-type: none"> ✓ Rejects the Speed Cameras but includes all other Governor's revenue solutions to generate \$700 million.

<ul style="list-style-type: none"> ✓ Extends Hospital Fees to generate \$200 million. ✓ Establishes the Emergency Response Initiative property insurance fee to fund fire costs to save almost \$100 million. ✓ Estimates \$450 million in various other revenues. 	<ul style="list-style-type: none"> ✓ Accepts LAO Revenue estimates (+\$360 million in the Current Year and +\$1 billion in revenues in the budget years). ✓ Closes the Oil Drilling Loophole (\$600 million) and delays new corporate tax breaks (\$2.1 million). ✓ Reduces the state sales tax, which is not deductible on federal individual returns, and substitute personal income taxes and vehicle license fees, which are deductible. This would result in a combined federal-state tax reduction for personal income taxpayers across all income groups, while still raising \$1.8 billion.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Childcare</u></p> <ul style="list-style-type: none"> ✓ Eliminates childcare programs for working families. ✓ Forces tens of thousands of working parents out of the workforce. ✓ Closes over 50,000 small business childcare providers. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Childcare</u></p> <ul style="list-style-type: none"> ✓ Protects full funding for childcare programs for working families. ✓ Keeps working parents in the workforce and keeps over 50,000 child care providers in business and their employees earning paychecks.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Higher Education</u></p> <ul style="list-style-type: none"> ✓ Restores \$610 million in cuts to UC and CSU. ✓ Increases UC fees by 15% and CSU fees by 10%. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Higher Education</u></p> <ul style="list-style-type: none"> ✓ Restores \$610 million in cuts to UC and CSU. ✓ Provides full funding for Community Colleges and doubles funding for the Economic Development program that trains tens of thousands of unemployed and looking for work Californians for new careers.

<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Health</u></p> <ul style="list-style-type: none"> ✓ Various significant cuts to Medi-Cal to save nearly \$700 million. ✓ Eliminates Adult Day Healthcare to save nearly \$200 million. ✓ Cuts county Mental Health Funds to save \$600 million. ✓ Makes various other health care cuts to save \$200 million. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Health</u></p> <ul style="list-style-type: none"> ✓ Makes no major cuts to healthcare programs and maintains Adult Day Healthcare, Mental Health, and other Medi-Cal programs. ✓ Restores \$70 million for critical public health and clinic programs that were vetoed by the Governor last year. ✓ Protects thousands of jobs.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Human Services</u></p> <ul style="list-style-type: none"> ✓ Eliminates CalWORKS to save \$1.2 billion. ✓ Reduces IHSS by 50% to save \$750 million. ✓ Reduces SSI/SSP grants for individuals to the federal minimum to save \$133 million. ✓ Shifts county human service funds and various other reductions to save \$600 million. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Human Services</u></p> <ul style="list-style-type: none"> ✓ Maintains the bare-bones safety net to continue welfare to work programs. ✓ Achieves \$250 million in savings for the IHSS program while improving the program establishing a provider fee and making other targeted reductions. ✓ Rejects cuts to SSI/SSP. ✓ Restores critical funds that the Governor vetoed last year, including \$80 for Child Welfare Services, \$6.4 million for core aging nutrition and support programs, and \$20.4 for domestic violence shelters.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Public Safety</u></p> <ul style="list-style-type: none"> ✓ Reduces prison healthcare costs to save \$811 million. ✓ Shifts certain offenders to county jail, 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Public Safety</u></p> <ul style="list-style-type: none"> ✓ Rejects the Governor's proposal to shift certain offenders to county jails without adequate funding.

<p>which could result in county jails releasing other inmates to the streets, and reduces local funding to cover the costs of the shifted inmates to save \$200 million.</p>	<ul style="list-style-type: none"> ✓ Reforms funding for "wobbler" offenders by providing \$375 million for counties for the full costs of counties maintaining "wobbler" offenders in local jails. If wobbler offenders sentenced to state prison, then associated funding would return to state to cover the costs.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Local Government</u></p> <ul style="list-style-type: none"> ✓ Shifts billions of costs to local governments by eliminating the state safety net, with no new resources for local governments to meet the additional costs. ✓ Suspends and defers certain mandate payments to save \$200 million. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Local Government</u></p> <ul style="list-style-type: none"> ✓ Rejects the Governor's "hidden realignment" which shifts billions of safety net responsibilities to local governments with no new revenues to cover the massive new cost. ✓ Duplicates the local government Joint Powers Authority that mitigated the impact of the Prop 1A suspension in 2009-10, to enable cities and counties to receive \$931 million of past state mandate funds that the state owes local governments. ✓ Makes no new cuts to local governments and helps local governments avoid as many as 20,000 layoffs by enabling the receipt of past mandate costs.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Employee Comp</u></p> <ul style="list-style-type: none"> ✓ Avoids collective bargaining to cut salaries 5%, increase employee retirement contributions 5%, reduces staff funding by 5%, and have a floating furlough day to save \$2.1 billion. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Employee Comp</u></p> <ul style="list-style-type: none"> ✓ Cuts staffing funds and overhead by 5% to save \$700 million. ✓ Reflects the savings achieved the six collective bargaining agreements and enables additional budget savings once the remaining collective bargaining agreements are reached. Provides a total savings of \$896 million.

<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Federal Funds</u></p> <ul style="list-style-type: none"> ✓ Projects \$3.4 billion in additional Federal Funds. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Federal Funds</u></p> <ul style="list-style-type: none"> ✓ Accepts Governor's projection of federal funds, but increases the number as a result of rejecting the Governor health care and other safety net cuts to save more than \$4.1 billion.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Borrowing; Fund Shifts; and other One-Time Solutions</u></p> <ul style="list-style-type: none"> ○ Proposes \$2.6 billion in various special fund loans, transfers, and fund shifts. ○ Proposes billions more in "hidden borrowing costs" with underfunding Prop 98, eliminating the safety net and shifting those costs to local governments; and building in unrealistic cut savings to IHSS and others. 	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Borrowing; Fund Shifts; and other One-Time Solutions</u></p> <ul style="list-style-type: none"> ✓ Generally accepts the Governor's \$2.6 billion in special fund loans, transfers, and fund shifts. ✓ Rejects the Governor's "hidden borrowing" proposals. ✓ Minimizes any additional one-time solutions and provides ongoing revenues or out-year adjustments to protect against negative ongoing impacts of one-time solutions.
<p style="text-align: center;">Governor's May Revision Plan:</p> <p><u>Reserve</u></p> <p>Stated reserve of \$1.2 billion, but likely overstated by billions due to unrealistic solutions and the negative impacts of the Governor's proposal.</p>	<p style="text-align: center;">Conference Committee's Updated Jobs Budget:</p> <p><u>Reserve</u></p> <ul style="list-style-type: none"> ✓ Provides a real reserve of \$550 million.